

## Message Text

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DRAFTED BY D:JCAHILL

APPROVED BY THE ACTING SECRETARY

D:RWDUEMLING

S/S - MR.EALUM

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FM SECSTATE WASHDC

TO AMCONSUL JERUSALEM IMMEDIATE

C O N F I D E N T I A L STATE 245644

EXDIS TOSEC 859

E.O. 11652:GDS

TAGS: ECON, EINV, ENRG, ETRD

SUBJECT:ECONOMIC POLICY BOARD MEETING

FOR SECRETARY FROM ACTING SECRETARY

1. IN YOUR ABSENCE I ATTENDED NOVEMBER 4 WHITE HOUSE MEETING OF ECONOMIC POLICY BOARD. SIMON CHAIRED, WITH DENT, BURNS, GREENSPAN, BRENNAN, BRINEGAR, MORTON, LYNN, EBERLE, ASH, WEINBERGER AND DOMESTIC COUNCIL REPRESENTATIVE PRESENT. THERE FOLLOWS SUMMARY OF DISCUSSION OF FIVE POINT AGENDA.

2. REVIEW OF THE CURRENT STATE OF THE ECONOMY: GREENSPAN NOTED CURRENT DECLINE AND ESTIMATED FURTHER SLIPPAGE FOR ANOTHER 4-6 MONTHS. SAW INVENTORY LIQUIDATION TAKING PLACE AND FORECAST PROBABLE RISE IN RATE OF UNEMPLOYMENT AND DOWNWARD TREND OF FEDERAL PRODUCTION INDEX. HOWEVER, CAPITAL GOODS MARKET IS STILL STRONG AND THIS, IF IT CONTINUES AS HE EXPECTS, MAY BE HOPEFUL SIGN OF ROLLING READJUSTMENT. ARTHUR BURNS FOUND ENCOURAGEMENT IN PENDING MCGRAW-HILL SURVEY WHICH IS EXPECTED TO SHOW 12 GROWTH IN CAPITAL EXPENDITURES IN 1975; WITH CURRENT INFLATION AT ABOUT 12 THIS MAKES CAPITAL EXPENDITURES ABOUT LEVEL IN REAL TERMS. WHILE NOTING STOCK MARKET FORECAST OF BIG DECLINE IN PRO-  
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FITS EXPECTED IN 1975, GREENSPAN THOUGHT THERE WAS SOME

EVIDENCE OF TENDENCY FOR THE INFLATION RATE TO SLOW DOWN. IN FACT, WAGES ARE NOT ACCELERATING AS MUCH AS HAD BEEN ANTICIPATED AND PRICES OF SUCH ITEMS AS ALUMINUM PRODUCTS SHOW EVIDENCE OF REDUCTION. BURNS NOTED INFLOW OF MONEY

INTO SAVINGS AND LOAN ASSOCIATIONS AND SAID THIS WOULD RESULT IN HOUSING UPTURN BY NEXT SPRING. HE ALSO NOTED AS ENCOURAGING THE DECLINE IN SENSITIVE INDUSTRIAL MATERIAL PRICES. HOWEVER, HE EXPRESSED CONCERN ABOUT THE EXCESSIVE INCREASE IN NON-UNION WAGES PLUS THE SUBSTANTIAL DECLINE IN PRODUCTIVITY DURING THE PAST YEAR.

3. PRIORITY LEGISLATION FOR LAME-DUCK SESSION OF CONGRESS: DISCUSSION WENT AROUND THE TABLE ON A LONG LIST OF PENDING LEGISLATIVE ITEMS. ASH ASKED FOR SUGGESTIONS ON ANY MISSING PIECES FOR ALL ENCOMPASSING LIST TO BE PRESENTED TO THE PRESIDENT. I TASKED EB TO INCLUDE WHATEVER LEGISLATION WOULD BE REQUIRED TO IMPLEMENT THE IEP.

4. FOOD POLICY ORGANIZATION AND WORLD FOOD CONFERENCE: EBERLE DISCUSSED COMPOSITION OF FOOD COMMITTEE AND ITS SUBORDINATE WORKING GROUP. REFERENCE WAS MADE TO FACT YOU WOULD BE PRESENTING SPEECH TO WORLD FOOD CONFERENCE AND EBERLE GAVE RUNDOWN OF ITEMS TO BE INCLUDED IN YOUR SPEECH.

5. LONG RANGE ECONOMIC ISSUES: GREENSPAN STRESSED NEED FOR INCREASED CAPITAL TO FUND MAJOR INVESTMENTS PARTICULARLY THOSE NEEDED TO MAKE US SELF-SUFFICIENT OR NEARLY SO IN ENERGY. SINCE FAIRLY STABLE RATE OF INDIVIDUAL SAVINGS DOES NOT GENERATE ENOUGH CAPITAL, IT WILL BE NECESSARY TO FURNISH NEEDED CAPITAL BY SURPLUSES IN THE GOVERNMENT BUDGET. HE CITED NEED FOR FEDERAL POLICY TO EMPHASIZE INVESTMENT FOR PRODUCTION VS EXPENDITURE FOR CONSUMPTION. BURNS NOTED THAT FOR PAST TEN YEARS CORPORATE PROFITS HAVE BEEN INADEQUATE; ACCOUNTING PRACTICES HAVE INFLATED REPORTED PROFITS, TAXES LEVIED ON THESE DISTORTED PROFITS SO THAT FUNDS FOR REINVESTMENT HAVE NOT BEEN ADEQUATE. BURNS SUGGESTED NEED FOR AN ECONOMIC EDUCATION PROGRAM AND DENT RESPONDED THAT THE DEPARTMENT OF COMMERCE

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HAS INITIATED WITH THE ADVERTISING COUNCIL SUCH A PROGRAM TO BEGIN NEXT MARCH.

6. LONG RANGE INTERNATIONAL FINANCE AND OIL ISSUES: SIMON DISCUSSED MECHANISMS FOR DISCUSSING LONG RANGE INTERNATIONAL FINANCE AND OIL ISSUES -- LIBRARY GROUP OF FIVE, GROUP OF TEN, GROUP OF TWENTY. HE HANDED OUT SHEET ON ESTIMATED OPEC COUNTRIES INVESTMENTS BETWEEN JANUARY 1 AND SEPTEMBER

30, 1974; OF THESE, ONLY 23 HAVE COME BACK TO THE US  
BUT SIMON STATED HE EXPECTED THIS PERCENTAGE TO RISE TO  
ABOUT 33 IN LAST QUARTER OF 1974.

7. MEETING CONCLUDED BY SEIDMAN'S HANDING OUT PAPER ON  
GENERAL PRINCIPLES, SCHEDULE OF MEETINGS AND ORGANIZATION  
OF THE ECONOMIC POLICY BOARD AND FOOD POLICY ORGANIZATION.  
HE STRESSED THE ORGANIZATION IS MINIMAL AND CAN ONLY SERVE  
TO COORDINATE ECONOMIC POLICIES FOR PRESENTATION TO THE  
PRESIDENT; MAJOR AGENCIES MUST PROVIDE THE NECESSARY  
STAFF WORK. INGERSOLL

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